

STATE - A.I.D. - USIA ROUTING SLIP				DATE 3/20/72	
TO:	Name or Title	Orgn. Symbol	Room No.	Bldg.	Initials Date
1.	EXSEC, Mr. T. Arndt				
2.	OPA, Mr. C. Dwyer				
3.					
4.	(Re yesterday's N. Y. Times story on AID/Laos				
5.	funds going to CIA)				
	Approval	For Your Information		Note and Return	
X	As Requested	Initial for Clearance		Per Conversation	
	Comment	Investigate		Prepare Reply	
	File	Justify		See Me	
	For Correction	Necessary Action		Signature	
REMARKS OR ADDITIONAL ROUTING					
<p>Attached are the following materials Rod O'Connor gave to the Secretary of State last night:</p> <ol style="list-style-type: none"> "Talking Points" which are probably all (or perhaps more than) the Secretary will use. A set of "Background Points" and Q & A material which we are putting into better shape for use as necessary. <p>We gave the same stuff to John King of State's press staff to draw on at the Noon Briefing today if necessary.</p>					
FROM: (Name and Org. Symbol)			ROOM NO. & BLDG.		PHONE NO.
SA/IR/SA/L:HLevin			5316 NS		29074

FORM 3-68 JF-29 (Formerly Forms DS-10, AID-5-50 & IA-68)

State Dept. review completed

TALKING POINTS

Re: New York Times Article on Laos - A.I.D. Funds

First, we have not seen copies of the GAO reports that are the subject of the article. Members of A.I.D.'s staff have reviewed drafts of the reports in the presence of GAO staff for classification purposes only. The State Department does not have a copy of Senator Kennedy's summary of the health report or the Senator's press release. Therefore, we are at this time at something of a loss in responding to the allegations made in the news story, which do not accord with the facts as we understand them.

Second, between 1962 and 1969 A.I.D. ^{have} ~~borne~~ the full cost of ~~providing~~ foodstuffs for regular military and paramilitary dependents in Laos as well as half the airlift cost for these foodstuffs. However, beginning in FY 1969 the Department of Defense and the CIA have

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progressively and other considered more appropriate for them *increasingly*
~~progressively~~ taken over these costs. The last ~~transfer~~ of such costs

in the amount of \$3.6 million ^{were} ~~was~~ shifted in FY 1972 from the A.I.D.

program to these two agencies. It is my understanding that today

A.I.D. is no longer funding any costs which are ^{more properly} attributable to the

~~activities of~~ either the DOD or the CIA.

Third, it is true that A.I.D. personnel are involved in providing
health services to Laotian paramilitary forces and ~~in some cases~~

a small number of regular military personnel. It is also true that

A.I.D. personnel, who are charged with the responsibility for

care and feeding of several ^{hundred} thousand Laotian refugees are involved

in that connection in the care of feeding of most of the dependents

of the paramilitary forces. The reason for this is simple, A.I.D.

personnel have the facilities and the know-how to perform these

humanitarian ⁱⁿ services. It would hardly be an act of humanity to grant

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these services only to those refugees that had no connection with Laotian fighting forces. It is fair to say that in the severe fighting taking place in the rugged Laotian countryside, there is little distinction between the requirements of care of military related dependents or purely civilian refugees.

Fourth, when we have received the text of the GAO reports and have had an opportunity to examine Senator Kennedy's press release and summary, we will be in a position to answer the specifics of these charges in greater detail and I shall be happy to supply an ^{copy of our response} ~~answer or respond~~ to this Committee.

"Kennedy Asserts Laos Civil Funds Still Go to CIA"

(N.Y. Times, Sunday, 3/19/72)

A. Background Points

1. We do not have the GAO report on the USAID/Laos health program given to Senator Kennedy, or the one on the USAID/Laos refugee program which, according to the New York Times, is to be presented to Senator Kennedy later this month. At GAO request, AID staff looked over ^{both} reports in the presence of GAO staff for ^{classification} purposes. On the basis of this review, AID advised the GAO that a number of paragraphs of the health report could be declassified and another downgraded. In the case of the refugee report, AID downgraded or declassified a number of paragraphs and upgraded a smaller number.

2. Nor do we have Senator Kennedy's summary of the health report.

3. As part of the assistance the USG provides, at the request of the Royal Lao Government (RLG), to help the RLG meet the military offensives of the North Vietnamese invaders and their Lao communist

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allies (the Lao People's Liberation Army - LPLA), the Central Intelligence Agency equips, trains and advises irregular forces.

This Administration makes no secret of that fact.

B. Comments on New York Times Story

1. Times: "Nearly half of the United States aid funds intended to help civilian victims of the war in Laos are still being diverted to the Central Intelligence Agency's clandestine guerrilla army...."

Comments: No AID funds are intended to finance CIA-sponsored forces. The cost shifts effective at the beginning of FY 72 were calculated to terminate all such financing of paramilitary assistance that AID had still been providing--certain medical and related air support costs and miscellaneous costs for pots, pans and utensils for paramilitary forces and their dependents --amounting to an estimated \$2.5 million for FY 72.

These cost shifts culminated a process begun in FY 69 of getting AID out of all financing of costs more appropriate

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for other agencies. Shifts to such other agencies in FY 69 amounted to an estimated \$6 million, in FY 71 to an estimated additional \$3.5 million, and in FY 72 to an estimated \$3.6 million (including the abovementioned \$2.5 million to CIA).

2. Times: "Based on the report's figures, the diversion of public health funds, which are managed by the Agency for International Development, amounts to an estimated total of \$2.5 million a year."

Comments: We assume the report was referring not to a diversion of \$2.5 million, but to CIA assuming that amount of costs previously borne by AID.

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3. Times:

"Refund Called a First. It was reported that the accounting office estimated that these services by AID to the CIA would be in excess of \$1 million between Jan. 1 and June 30, 1972, the second part of the 1972 fiscal year for which the over-all commitments were made.

"The Kennedy committee estimates, therefore, that the present annual figure for the diversions of public health funds to the intelligence agency is about \$2.5 million.

"Last month's payment by the CIA to the other agency was according to the accounting office, the first refund. The accounting office estimates that the nonreimbursed cost to AID for supporting the clandestine army's medical needs was about \$1.6 million each in the fiscal years 1970 and 1971."

Comments: The GAO report must be referring not to diversions

but to payments made by CIA to AID on the basis of the cost-sharing

agreement between the two agencies. As to "non-reimbursement"

costs, the GAO must have been referring to payments not yet made

by CIA to AID but which will be made under the terms of the cost-

sharing agreement which allocates to CIA, as best as the two agen-

cies could, all financial assistance to paramilitary and their

dependents that AID was previously providing.

4. Times: "These totals, however, were exclusive of air support for military medical aid under the international development agency's air technical support program. The accounting office estimated that in each year, \$500,000 to \$600,000 additional is also applicable to these projects for air transport of commodities and personnel."

Comments: The air support in question is provided by CIA under the cost-sharing agreement mentioned above.

5. Times:

"A comparison of the G. A. O. estimates with the development agency's public health obligations in Laos shows that about half the money is diverted for the guerrilla force of the intelligence agency.

"The total A. I. D. commitment for public health programs in Laos in fiscal 1972 is \$4,956,000, and the accounting office assumes that nearly \$2.5 million will have been transferred to the intelligence agency. "

Comments: Again, "diverted" is the wrong word. While we have not seen the GAO report, we would assume it says that CIA and A. I. D.'s health expenditures together for FY 1972 will come to \$4,956,000. That is approximately correct.

6. Times:

"C.I.A. use of the A.I.D. as a screen for military operations in Laos first came to public attention two years ago. On March 4, 1970, the Senate Foreign Relations Committee said that it had received confirmation from the intelligence agency of press reports concerning the use of the other agency as a cover.

"On June 8, 1970, Dr. John A. Hannah, the A.I.D. administrator, said in a radio interview that "I just have to admit that this is true" and said the link between had been established in 1962."

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Comments:

[REDACTED]

[REDACTED] the A.I.D. program, which is a serious program of economic assistance in Laos.

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CONFIDENTIAL
(Material in brackets only)

TAB NO.: _____
DATE: _____

LAOS - MILITARY ASSISTANCE

Military assistance is supplied pursuant to an agreement dated December 23, 1950, between the U.S. and the Government of Laos, supplemented by three exchanges of letters (the first in September 1962) between Prime Minister Souvanna Phouma and the U.S. Ambassador. (UNCLASSIFIED)

U.S. Military assistance is being provided at the request of the Royal Lao Government. This is authorized by Article 6 of the 1962 Protocol to the Declaration on the Neutrality of Laos. (UNCLASSIFIED)

Beginning in FY 1968, military assistance for Laos and Thailand was transferred from the regular MAP program under the Foreign Assistance Act to the Military Services Budgets (MASF). However, the basic system of program development, review and approval is continuing without major change and basically in accordance with the Military Assistance Manual as applied to MAP under the FAA. (UNCLASSIFIED)

[The U.S. provides nearly all the arms, equipment and ammunition received by the Royal Lao armed forces. Limited assistance is also provided by _____ in steadily decreasing amounts. CONFIDENTIAL]

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1965	1966	1967	1968	1969	1970	1971	1972	1973
MAP	MAP	MAP	MASF	MASF	MASF	MASF	MASF	MASF

CONFIDENTIAL

Actual requirements are affected by the course of military operations, and the assistance is given in order to sustain the operations of the Lao Army forces (FAR and FAN) and Air Force (RLAF). Less than 1% of the program costs is for investment items. (UNCLASSIFIED)

(See Attachment No. 1 re administration. See Attachment No. 2, "Supply of Military and Paramilitary Forces, and Related Costs" for information relating to AID/DOD/CIA funding of foodstuffs, food delivery costs, medical costs, and the Requirements Office, (Secret)).

SA/IR/LT/L: RMcCarthy: 3/15/72

Clearance:

SA/IR/LT/L: HAlvin(draft)

State/EA/LC: TGrant(draft)

DOD/OSD/ISA: Maj. Cook (MASF figures only)

ATTACHMENT NO. 1 TO TAB NO. _____

ADMINISTRATION OF MILITARY ASSISTANCE

The Office of the Deputy Chief of the Joint U. S. Military Advisory Group in Udorn (DEPCHJUSMAGTHAILAND) functions as the Laos Military Advisory Group. The execution of the program within Laos is handled by the Requirements Office of the USAID. Programs are developed jointly by these two offices and submitted for review and approval through CINCPAC and regular MAP channels (OSD/ISA). The USAID Requirements Office in Vientiane has the function of assisting the Lao Armed Forces to receive, warehouse, allocate, and distribute military equipment and supplies for the armed forces within Laos.

SECRET

ATTACHMENT NO. 2 TO TAB NO. _____

(Material in Brackets Only)

SUPPLY OF MILITARY AND PARAMILITARY FORCES AND RELATED COSTS

Between 1962 and 1969 A.I.D. bore the full cost of foodstuffs for regular military and paramilitary forces and for paramilitary dependents in Laos, and half the airlift cost for the foodstuffs. [REDACTED]

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Beginning in FY 1969 DOD assumed the funding of food and delivery costs for the above forces and dependents in the Northern Military Regions (I and II), which involved air delivery. As a result of this transfer, FY 1969 A.I.D. costs for the three projects involved--Refugee Relief, Military Support and Air Support--were about \$6 million less than they would otherwise have been.

Beginning with FY 1971 DOD assumed funding the remainder of the above types of costs previously borne by A.I.D. In addition, DOD assumed funding the personnel costs of the USAID Requirements Office which is responsible for receiving, warehousing and transferring to the Lao Armed Forces all MASF inputs into Laos. These transfers of costs reduced A.I.D. funding requirements by an estimated \$3.5 million annually (based on the FY 1971 costs).

Another shift took place during FY 1971, involving a type of cost for which the Mission programmed \$100,000 in FY 1971 but for which FY 1971 requirements totaled about \$500,000. The difference was non-A.I.D.-financed and this type of cost will be completely non-A.I.D.-financed hereafter. Other shifts totalling \$3.6 million were effective at the beginning of FY 1972. With these shifts, A.I.D. no longer finances any assistance to Lao military/paramilitary personnel or dependents. *

[REDACTED] Details of shifts mentioned in preceding paragraph:

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SA/IR/LT/L:RMccarthy:RThompson:HALevin:3/15/72

SECRET

*Add ✓

Imperfections in cost-sharing procedures may result in one agency or another paying somewhat more or less than its proper share at any given time. But the agencies involved are keeping the ~~procedures~~ formulas under review for the purpose of adjusting them as necessary.

SECRET

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SA/IR/IT/L:RMcCarthy:RThompson:HALevin:3/15/72

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